

# DOCKET SECTION

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 1997

POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY  
Docket No. R97-1

## RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE (OCA/USPS-104-106)

The United States Postal Service hereby provides responses to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-104-106, filed on November 7, 1997.

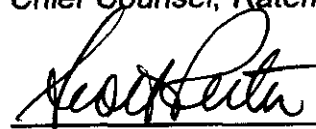
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



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November 21, 1997

RESPONSE OF THE U.S. POSTAL SERVICE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-104.** The November 4, 1997 release of the Postal News quotes Chief Financial Officer Riley as reporting at the Board of Governors' meeting of the same date that the Postal Service's Federal Financing Bank(FFB) debt was "\$5.86 billion, as of September 30, 1997."

- a. Please confirm that such debt represents a change in the previously estimated balance of \$7,607,905,(000) for September 30, 1997, shown on the schedule "FFB Note Interest Expense Computation for GFY 1997" in library reference H-12, Chapter VI-b (at 130). If you do not confirm, please explain.
- b. If part a, above, is confirmed, please further confirm that it represents a reduction in the estimated note debt as of the end of FY 97 of \$1,747,905,(000). If you do not confirm, please explain.
- c. Please confirm that the actual amount of debt outstanding at the end of FY 97 is 22.97% less ( $\$7,607,905,(000) - \$5,860,000,000 / \$7,607,905,(000)$ ) than estimated in the above cited library reference. If you do not confirm, please explain.

RESPONSE:

- a. The amount of debt outstanding with the Federal Financing Bank (FFB) on September 30, 1997, was \$ 5,861,404,703. It is confirmed that this amount represents a change from the previously estimated balance of \$7,607,905,000.
- b. The actual debt balance on September 30, 1997 represents a reduction of \$1,746,500,297 from the estimate.
- c. The actual amount of debt outstanding at the end of FY 97 is 22.96% less than estimated.

**RESPONSE OF THE U.S. POSTAL SERVICE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-105.** Total GFY Interest Expense for 1998 (before rates) shown on library reference H-12, Chapter VI.b (at 132) is estimated to be \$429,232,000.

- a. Please confirm that this amount underlies the "Interest on Debt" listed by witness Patelunas under "other programs" for cost segment 20 in exhibit-15A, at 2, and taken from his workpaper WP-A, Pt 2 of 2, Table 7 at 856. If not, please explain.
- b. Please provide for FY 97 and FY 98 the amounts by accounts for capitalized interest, interest-bonds, interest-notes, and interest mortgages, which make up the subtotal for component 587, "Interest on Debt" reflected in witness Patelunas' workpapers WP-A, Pt 2 of 2, Table 1, at 854, Imputed Interest Land/Building, Vehicle & Equipment in the amount of \$368,039,(000) for FY 97 and WP-D, Pt 2 of 2, Table A.7, at 754 in the amount of \$362,214,(000) for FY 98.
- c. Please confirm that the FY 98 savings in interest resulting from lower year end FY 97 note debt will be around \$100,000,000 assuming a pro rata reduction of estimated interest expense (22.97% of \$429,232,000 = \$98,594,590). If you do not confirm, please explain.
- d. Please confirm that the average interest rate on the outstanding notes at the end of FY 97 is less than the average interest rate estimated for notes outstanding at the end of FY 97 on "FFB Note Interest Expense Computation for GFY 97", referenced above. If you do not confirm, please explain.

**RESPONSE:**

- a. Not confirmed. The Patelunas Exhibit and workpaper you have referenced contains amounts related to FY 1997 interest expense, not FY 1998 before rates. Comparable amounts for FY 1998 before rates can be found in USPS Exhibit - 15A, page 4 (revised 9/2/97), and Patelunas Workpaper D, part 2 of 2, page 752. Please note that the \$429 million number you have referenced relates to note interest

only. In addition to note interest, interest on debt also includes mortgage interest and interest capitalized.

b. Please refer to page 86 of LR H-12 for this information (Chapter IV, Section H). Note that the \$368,039,000 you have referenced is FY 96 actual interest expense, not FY 97 interest expense as you have indicated.

c. The methodology suggested may provide a rough approximation of the anticipated savings from lower than expected FY 97 ending debt balances. However, the Postal Service cannot confirm the methodology for arriving at the stated savings amount of around \$100,000,000 for several analytical reasons. In order for the methodology to be accurate the following assumptions would have to be true: (1) the new financing that was expected to be done on September 30, 1997 would need to have the same assumed interest rate as the rest of the debt portfolio, (2) the expected financing would need to be the same type of debt as the rest of the debt portfolio - all fixed rate or all variable rate, (3) the expected financing would need to have been outstanding for the entire fiscal year to achieve the annual savings, and (4) no scheduled or presumed debt payments could be made that would change the weighted average interest rate. The methodology used in the schedule attached to the response to OCA/USPS-106 c. is preferred.

Please also note that capitalized interest was substantially less than estimated for FY 1997. Based upon this experience it is expected that FY 98 capitalized interest will also be lower thus partially offsetting the lower interest expense.

**RESPONSE OF THE U.S. POSTAL SERVICE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-106.** The Postal News release also states the Board of Governors has authorized the agency to borrow up to an additional \$1.7 billion in FY 98.

- a. *Is it anticipated that all of these funds will be borrowed from the Federal Financing Bank(FFB)? If not, please explain.*
- b. *Please state whether this amount for FY 98 will result in a reduction in the total amount of FY 98 borrowing which was estimated to total \$10,606,905,(000) at year end (September 30, 1998) in library reference H-12, Chapter VI.b (at 132). If not, please explain.*
- c. *Please provide an updated schedule of the before rates and after rates "FFB Note Interest Expense Computation for GFY 1998" schedule shown in library reference H-12, Chapter VI.b (at 132-133) based upon the revised information presented at the Board of Governors meeting.*

**RESPONSE:**

- a. Yes.
- b. The \$10.607 billion estimated balance of debt outstanding at the end of end of FY 1998 is a before rates estimate. Since the before rates estimate is hypothetical in nature and based on an event which is not expected to occur, the \$1.7 billion net increase in debt authorized by the Board of Governors for FY 98 is not relevant to this scenario. The \$1.7 billion borrowing authorized by the Board for FY 1998 was based on the Postal Service's FY 98 operating budget which assumes that the rates requested in this filing will be effective on June 1, 1998.
- c. Please see the attached schedules which have been updated to reflect the impact of the actual FY 1997 year end debt balance. The schedules have also

been revised to correct an error in the interest rate used to determine the interest expense for note 55. The original filing used 6.142% instead of the correct rate of 6.49%.

FFB Note Interest Expense Computation for GFY 1998: Before Rates

NOTE #	Balance 9/30/97	Date P/Q	Payments	Balance	Issue Date	Maturity date	Interest Rate	# days	Interest (\$ In Thousands)
FFB 06	96,000				05/30/88	05/31/00	8.075%	243	5,161
FFB 06		IV	32,000	64,000	05/30/88	05/31/00	8.075%	122	1,727
FFB 08	60,000				05/30/88	05/31/01	7.800%	243	3,116
FFB 08		IV	15,000	45,000	05/30/88	05/31/01	7.800%	122	1,173
FFB 11	22,505				09/29/86	06/01/98	7.591%	243	1,137
FFB 11		IV	22,505	0	09/29/86	06/01/98	7.591%	122	0
FFB 12	30,000				06/30/87	06/01/98	8.474%	243	1,692
FFB 12		IV	30,000	0	06/30/87	06/01/98	8.474%	122	0
FFB 13	35,400				08/24/87	06/01/98	8.908%	243	2,099
FFB 13		IV	35,400	0	08/24/87	06/01/98	8.908%	122	0
FFB 14	60,000				12/01/87	06/01/98	9.074%	243	3,625
FFB 14		IV	60,000	0	12/01/87	06/01/98	9.074%	122	0
FFB 17	36,000				05/31/89	05/31/98	8.773%	243	2,103
FFB 17		IV	36,000	0	05/31/89	05/31/98	8.773%	122	0
FFB 18	36,000			36,000	05/31/89	05/31/99	8.762%	365	3,154
FFB 19	36,000			36,000	05/31/89	05/31/00	8.761%	365	3,154
FFB 20	36,000			36,000	05/31/89	05/31/01	8.760%	365	3,154
FFB 37	450,000	IV	450,000	0	09/05/91	09/30/98	7.786%	364	34,941
FFB 44	1,500,000			1,500,000	11/12/92	08/15/02	7.367%	365	110,505
FFB 45	1,000,000			See below:	11/12/92	11/30/07	7.615%		
FFB 45					10/01/97	11/30/97	7.615%	60	12,518
FFB 45			86,500	913,500	12/01/97	09/30/98	7.615%	305	58,128
FFB 50	500,000			500,000	07/17/95	05/16/05	6.274%	365	31,370
FFB 56*	700,000	I,II,III,IV	Schedule 1	700,000	09/30/96	09/30/97	Schedule 1	Schedule 1	9,672
FFB 55*	300,000	I,II,III,IV	Schedule 2	300,000	09/30/96	09/30/97	Schedule 2	Schedule 2	1,510
NEW 97,LT	0			0	09/30/97	09/30/02	7.17%	365	0
NEW 97,(54)*	963,500		750,000		09/30/97	11/15/97	6.02%	45	7,148
			213,500		11/16/97	02/15/98	6.29%	92	3,383
					02/16/98	05/15/98	6.44%	89	0
					05/15/98	08/15/98	6.60%	93	0
				0	08/16/98	11/30/98	6.82%	46	0
New 98B	575,000	IV	575,000	0	06/15/98	08/15/98	6.60%	60	6,234
New 98C	875,000	IV		875,000	08/15/98	11/30/98	6.818%	46	7,518
New 98D	3,855,905	IV		3,855,905	09/15/98	09/30/99	6.818%	1	720
Balance 9/30/97	5,861,405				Total GFY Interest Expense:				314,943
Balance 9/30/98				8,861,405					
Net Increase				3,000,000					

\* Assumes that FFB Note # 54 is modified to increase the amount available under the note and that the maturity dates of FFB Notes # 55 & # 56 are extended. All financing activity projected after the date of the schedule uses projected interest rates. These projected rates were from the implied forward rates for the three-month Treasury Bill using Telerate as the source for the yield curve as of 3:00 PM on 5/22/1997. The information was provided by J.P. Morgan but does not represent their forecast.

FFB Note Interest Expense Computation for GFY 1998: Before Rates  
Schedule 1 - FFB 56\*

	Average	Pay Periods		Average	Credit Line Interest		
	Balance	& FYE	ays per cycl	Rate	# days		
Estimated FY 1998 Credit Line activity:							
FFB 56 (Short Term)	700,000	2	4	6.017%	8	923.1868	
	550,000		1		2	181.3403	
	275,000		1		2	90.6701	
					Sub Total	1,195.1973	
	550,000	8	4	6.017%	32	2,901.4444	
	450,000		1		8	593.4773	
	225,000		1		8	296.7386	
					Sub Total	3,791.6603	
	400,000	8	4	6.286%	32	2,204.4405	
	300,000		1		8	413.3326	
	150,000		1		8	206.6663	
					Sub Total	2,824.4395	
	250,000	8	4	6.444%	32	1,412.4493	
	150,000		1		8	211.8674	
	75,000		1		8	105.9337	
					Sub Total	1,730.2504	
	700,000	1	1	6.818%	1	130.7504	
					Sub Total	130.7504	
	Total	27			Total FFB 56	9,672.2978	

Schedule 2 - FFB 55*							
FFB 55 (Overnight)	300,000	13		6.142%	13	656.2899	
	100,000				13	218.7633	
					Sub Total	875.0532	
	150,000	13		6.490%	13	346.7367	**
	100,000				13	231.1578	**
					Sub Total	577.8945	
	300,000	1	1	6.943%	1	57.0633	
					Sub Total	57.0633	
		27			Total FFB 55	1,510.0110	

\* Assumes that FFB Note # 54 is modified to increase the amount available under the note and that the maturity dates of FFB Notes # 55 & # 56 are extended. All financing activity projected after the date of the schedule uses projected interest rates. These projected rates were from the implied forward rates for the three-month Treasury Bill using Telerate as the source for the yield curve as of 3:00 PM on 5/22/1997. The information was provided by J.P. Morgan but does not represent their forecast.

\*\* Represents correction from initial filing. Initial filing used interest rate of 6.142%. Calculation should have used 6.49%.



FFB Note Interest Expense Computation for GFY 1998:

After Rates

NOTE #	Balance 9/30/97	Date P/Q	Payments	Balance	Issue Date	Maturity date	Interest Rate	# days	Interest (\$ In Thousands)
FFB 06	96,000				05/30/88	05/31/00	8.075%	243	5,161
FFB 06		IV	32,000	64,000	05/30/88	05/31/00	8.075%	122	1,727
FFB 08	60,000				05/30/88	05/31/01	7.800%	243	3,116
FFB 08		IV	15,000	45,000	05/30/88	05/31/01	7.800%	122	1,173
FFB 11	22,505				09/29/86	06/01/98	7.591%	243	1,137
FFB 11		IV	22,505	0	09/29/86	06/01/98	7.591%	122	0
FFB 12	30,000				06/30/87	06/01/98	8.474%	243	1,692
FFB 12		IV	30,000	0	06/30/87	06/01/98	8.474%	122	0
FFB 13	35,400				08/24/87	06/01/98	8.908%	243	2,099
FFB 13		IV	35,400	0	08/24/87	06/01/98	8.908%	122	0
FFB 14	60,000				12/01/87	06/01/98	9.074%	243	3,625
FFB 14		IV	60,000	0	12/01/87	06/01/98	9.074%	122	0
FFB 17	36,000				05/31/89	05/31/98	8.773%	243	2,103
FFB 17		IV	36,000	0	05/31/89	05/31/98	8.773%	122	0
FFB 18	36,000			36,000	05/31/89	05/31/99	8.762%	365	3,154
FFB 19	36,000			36,000	05/31/89	05/31/00	8.761%	365	3,154
FFB 20	36,000			36,000	05/31/89	05/31/01	8.760%	365	3,154
FFB 37	450,000	IV	450,000	0	09/05/91	09/30/98	7.786%	364	34,941
FFB 44	1,500,000			See below:	11/12/92	08/15/02	7.367%	0	0
FFB 44					10/01/97	05/15/98	7.367%	226	68,422
FFB 44		III	346,500	1,153,500	05/16/98	09/30/98	7.367%	139	32,362
FFB 45	1,000,000			See below:	11/12/92	11/30/07	7.615%		0
FFB 45				1,000,000	10/01/97	11/15/97	7.615%	45	9,388
FFB 45			0	1,000,000	11/16/97	02/15/98	7.615%	92	19,194
FFB 45		II	846,500	153,500	02/16/98	05/15/98	7.615%	89	2,850
FFB 45		III	153,500	0	05/16/98	09/30/98	7.615%	139	0
FFB 50	500,000			500,000	07/17/95	05/16/05	6.274%	365	31,370
FFB 56*	700,000	I,II,III,IV	Schedule 1	700,000	09/30/96	09/30/98	Schedule 1	Schedule 1	9,672
FFB 55*	300,000	I,II,III,IV	Schedule 2	300,000	09/30/96	09/30/98	Schedule 2	Schedule 2	1,510
NEW 97,(54)*	963,500	I	810,000		10/01/97	11/15/97	6.02%	45	7,148
		II	153,500		11/16/97	02/15/98	6.29%	92	2,432
					02/16/98	05/15/98	6.44%	89	0
					05/15/98	08/15/98	6.60%	93	0
New 98B		IV		400,000	08/16/98	09/30/98	6.82%	46	3,437
New 98C	250,000	IV		250,000	08/15/98	08/15/99	6.818%	46	2,148
New 98D	1,440,500	IV		1,440,500	09/15/98	09/30/99	6.818%	1	269
Balance 9/30/97	5,861,405				Total GFY Interest Expense:				256,439
Balance 9/30/98				7,114,500					
Net Increase				1,253,095					

\* Assumes that FFB Note # 54 is modified to increase the amount available under the note and that the maturity dates of FFB Notes # 55 & # 56 are extended. All financing activity projected after the date of the schedule uses projected interest rates. These projected rates were from the implied forward rates for the three-month Treasury Bill using Telerate as the source for the yield curve as of 3:00 PM on 5/22/1997. The information was provided by J.P. Morgan but does not represent their forecast.

FFB Note Interest Expense Computation for GFY 1998:  
Schedule 1 - FFB 56\*

After Rates

Attachment to  
OCA/USPS-106  
page 4 of 4

Estimated FY 1998 Credit Line activity:	Average Balance	Pay Periods & FYE	ays per cycl	Average Rate	Credit Line Interest # days	
FFB 56 (Short Term)	700,000	2	4	6.017%	8	923.1868
Includes the FFB fee of .125% over three-month Treasury Bill	550,000		1		2	181.3403
	275,000		1		2	90.6701
					Sub Total	1,195.1973
	550,000	8	4	6.017%	32	2,901.4444
	450,000		1		8	593.4773
	225,000		1		8	296.7386
					Sub Total	3,791.6603
	400,000	8	4	6.286%	32	2,204.4405
	300,000		1		8	413.3326
	150,000		1		8	206.6663
					Sub Total	2,824.4395
	250,000	8	4	6.444%	32	1,412.4493
	150,000		1		8	211.8674
	75,000		1		8	105.9337
					Sub Total	1,730.2504
	700,000	1	1	6.818%	1	130.7504
					Sub Total	130.7504
	Total	27			Total FFB 56	9,672.2978

Schedule 2 - FFB 55\*

FFB 55 (Overnight)	300,000	13		6.142%	13	656.2899
Includes the FFB fee of .25% over three-month Treasury Bill	100,000				13	218.7633
					Sub Total	875.0532
	150,000	13		6.490%	13	346.7367
	100,000				13	231.1578
					Sub Total	577.8945
	300,000	1	1	6.943%	1	57.0633
					Sub Total	57.0633
		27			Total FFB 55	1,510.0110

\* Assumes that FFB Note # 54 is modified to increase the amount available under the note and that the maturity dates of FFB Notes # 55 & # 56 are extended. All financing activity projected after the date of the schedule uses projected interest rates. These projected rates were from the implied forward rates for the three-month Treasury Bill using Telerate as the source for the yield curve as of 3:00 PM on 5/22/1997. The information was provided by J.P. Morgan but does not represent their forecast.

\*\* Represents correction from initial filing. Initial filing used interest rate of 6.142%. Calculation should have used 6.49%.

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in cursive script, appearing to read "Scott L. Reiter", is written over a horizontal line.

Scott L. Reiter

475 L'Enfant Plaza West, S.W.  
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November 21, 1997